

# Investments and Results by IAFC and its tecTERRA Fund I

As of August 29, 2005:

## tecTERRA Fund (IAFC as Class B LP) & IAFC Direct Investments

<b>Portfolio Company</b> <i>Location of Facilities</i> Significant Co-investors (not an exhaustive list of lenders or owners)	<b>Invested by tecTERRA</b> Debt and Equity	<b>Invested by IAFC</b> Debt and Equity	<b>Invested by Others<sup>1</sup></b> Debt and Equity (so far)
<b>Rudi's Bakery</b> <i>North Liberty, IA and Boulder, CO</i> Iowa Farm Bureau Federation Management	\$10,789,124	\$2,545,000 <sup>2</sup>	
<b>Sioux-Preme</b> <i>Sioux Center, IA and Sioux City, IA</i> Iowa management and Sioux-Preme Producers Network	\$5,000,000	6,000	
<b>Wildwood</b> <i>Grinnell, IA and CA</i> Pulmuone Management	\$4,800,000	\$2,305,000	
<b>ProdiGene</b> <i>Adel, IA and College Station, TX</i> International Oilseeds (Stine Seeds affiliate)	\$6,045,186	0	
<b>Iowa Quality Beef (IQB)</b> <i>Tama, IA</i> American Foods Group IDED Wells Fargo Liberty Bank	0	\$3,000,000	
<b>Ag Waste Recovery Systems (AWRS)</b> <i>Ames, IA and Marshalltown, IA</i> Edge Technology Corporation Iowa Farm Bureau Federation Principal Financial Group American Republic and others	0	\$150,000	
<b>TOTAL</b>	<b>\$26,634,310.00</b>	<b>\$5,461,000.00</b>	<b>\$120,000.000.00</b>

## Total Investments

IAFC or its tecTERRA Fund invested approximately \$32,000,000, substantially more than the original State loan.

<sup>1</sup> Reported in the aggregate. At the client company level this is confidential information and may not be disseminated by IAFC publicly. Leverage is highest in those companies with the greatest Iowa nexus.

<sup>2</sup> Currently, \$1,475,175 outstanding, including both preferred debt and equity.

## **tecTERRA Fund**

Given the structure of tecTERRA, IAFC anticipates returns in line with or better than the majority of venture capital funds founded in the same vintage year of 1999, but not as good as our original objectives. Because IAFC has priority on return of capital invested, current estimated returns are more than enough to secure the scheduled repayment of the state loan to IAFC. IAFC fully expects timely repayment of the state loan.

## **IAFC directly**

IAFC has approximately \$5 million invested directly.

IAFC has approximately \$19 million invested through tecTERRA.

IAFC has already repaid \$3.5 million to the state, ahead of schedule.

**Rudi's.** IAFC expects a significant return of its investment in Rudi's. The company is now the fastest growing and largest specialty bread manufacturer in the United States and is performing well. To get to this result required changing management and marketing, changing the business plan, finding a new financial partner, and relieving the operating company of the cost of an underutilized Iowa facility built too far ahead of demand. It is unlikely that Rudi's will ever deliver the originally intended Iowa benefits. Better to get the money back, than to lose both the money and the sought after Iowa benefits. A caution, work to determine the utilization and disposition of the North Liberty facility is still in process. It's never over until it's over. Someone will use the plant we built and employ Iowans.

**Wildwood.** IAFC provided bridge financing to attract a strategic marketing relationship with Pulmuone, a major international soy foods player. As PMO Wildwood the company continues to operate the Grinnell facility and to source soybeans from Iowa for operations in Iowa, California and Korea. With no clear exit timing, financial results are uncertain, but Wildwood is a clear Iowa benefit win, with significant new employment, tax base, and demand for Iowa food grade soybeans. Key Iowa manager owners are Iowa soybean producers.

**IQB.** The \$3 million IQB loan was assigned to IDIED as part of a State directed deal in partial satisfaction of IAFC's loan obligation to IDIED. Operations at the Tama Plant were suspended August 20, 2004. Future business prospects for IQB are unknown. At the time of loan assignment to IDIED, the \$3 million loan was secured by a first mortgage. The security (plant and equipment) had an estimated market value of \$13-15 million. The state accepted subordination to future commercial lenders. Lack of information about the amount or terms of subordination was one of the reasons the financing did not match IAFC's risk-bearing capacity or underwriting standards.

IAFC believes there is an opportunity for a specialty beef operation similar to Sioux-Preme's specialty pork operations, but success would require the right management team, marketing talent, and additional capital investment.

**AWRS.** IAFC made a \$150,000 equity investment in this early-stage hog waste management technology company. The technology is proven to function as promised,

but was never reduced to a commercially saleable model. The company is dormant. The technology is likely to require additional capital; additional engineering, management and marketing talent; and a revised corporate structure to progress further.

**Sioux-Preme and Sioux-Preme Producers Network.** IAFC provided financing for Sioux-Preme Producers Network to buy its current 7% stake in Sioux-Preme Packing Co. Sioux-Preme is a clear winner in both financial performance and public benefits for Iowa.

**ProdiGene.** Through tecTERRA and a Stine Seeds affiliate, Iowans now control key intellectual property for the development of plant made biopharmaceuticals. ProdiGene was the first bioengineered plant biopharmaceutical company to successfully market a protein, but market demand is modest so far. Future company growth is likely to be in Iowa. Stine affiliates provide contract services to the ProdiGene corporate shell. ProdiGene has no or very few direct employees. Total Stine employment in Iowa is approximately 270.

## Measures of Return on Investment

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### Total Leverage

Total leverage of the state loan at both the tecTERRA Fund level (limited partners' investments) and at the portfolio company level (debt and equity financing from other sources) exceeds \$120 million. Stated another way, the loan of \$25 million has already contributed to or supported more than \$120 million in spending by other parties. The leverage ratio is 4.8. For every one dollar loaned to IAFC, IAFC has already attracted or supported 4.8 additional dollars in Iowa related companies or for Iowa related investors. Leverage is highest in the companies with significant Iowa presence.

### Total Returns and Return of Capital

Investments are judged by financial return. IAFC or its tecTERRA Fund have yet to exit any investments, but based upon the current situation in which all tecTERRA investments are controlled by well capitalized owners, IAFC fully expects financial returns more than sufficient to secure repayment of the loan to IAFC from IDIED.

The beauty of the IAFC model created by the legislature is that success funds additional investments and accumulates future benefits. While currently in a financial harvesting period, money realized will enable repayment of the state loan on schedule and additional investments in new ventures.

### Total Iowa Employment Benefits

Similar to the situation with reporting capital invested by others, IAFC is prohibited by confidentiality agreements from reporting employment at the company level. Therefore, reported on an aggregate basis:

- ☐ Portfolio companies have approximately **2,700** Iowa employee years since an initial investment by IAFC or tecTERRA, and
- ☐ Approximately **200** total current Iowa employees.

“Employee Years” reflects cumulative annual employment since initial investment by IAFC or its tecTERRA Fund. Employee years includes one-time work such as construction on new or remodeled facilities, suppliers whose business is dependent upon the portfolio company and direct employees (e.g., dedicated trucking companies). For instance, a company that employed 24 people for six months to build a plant would contribute 12 Iowa employee years. A company that employed 250 employees for two years would contribute 500 Iowa employee years. (This figure tracks cumulative benefit as employment levels will necessarily fluctuate in any business over five, ten or thirty years.) Because the data is self-reported by the companies and internal methodology may differ it should be used to evaluate order of magnitude, and not detail.

“Current Iowa Employment” is limited to current direct Iowa employees of each company, understating Iowa benefits.

Average annual wage (wages and benefits) is approximately \$33,000.

### **Producer Premiums**

Producer premiums for Iowa crops and livestock enabled by IAFC investments exceed \$12 million over commodity pricing and this category of public benefits is rapidly growing.

## **Conclusion**

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IAFC fully expects to repay the state loan on schedule. IAFC and its tecTERRA Fund are delivering substantial and material public benefits through investments in target companies. Not all investments have panned out exactly as intended, either on the financial bottom line or the public benefits bottom line. The purpose of portfolio diversification is to counter-balance the inevitable strikes with hits. We have the necessary winners to be secure in meeting financial obligations to the state. Similarly public benefits are real and deep and significantly in excess of the moneys loaned to IAFC. IAFC investment in new or remodeled Iowa plant and equipment exceeds \$19 million and these facilities add to the local property tax rolls. Premiums to Iowa agricultural producers enabled by IAFC investments exceed \$12 million. More than 200 Iowans are currently employed by portfolio companies or their affiliates. The number is even larger if you count those employed by suppliers. More than 2,700 Iowa employee years were funded or supported by IAFC investments. These employees and the benefited agricultural producers pay Iowa income taxes. IAFC continues to pursue its mission to create wealth in rural Iowa through investments in value-added agriculture and biotechnology.